

FITCHBURG GAS AND ELECTRIC LIGHT COMPANY

Electric Reconciliation Mechanism and
Inflation Adjustment Filing

D.T.E. 03-115

TESTIMONY AND SCHEDULES
OF
ROBYN A. TAFOYA

ON BEHALF OF
FITCHBURG GAS AND ELECTRIC LIGHT COMPANY

Presented to the
Massachusetts Department of Telecommunications and Energy

November 26, 2003

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1 **I. INTRODUCTION**

2 Q. Please state your name and business address.

3 A. My name is Robyn A. Tafoya. My business address is 6 Liberty Lane West,
4 Hampton, New Hampshire, 03842-1720.

5

6 Q. By whom are you employed and what is your title and job responsibilities?

7 A. I am the Director of Finance for Unitil Service Corporation (“USC”), a subsidiary
8 of Unitil Corporation (“Unitil”). USC provides centralized professional and
9 administrative services to Unitil’s subsidiaries, including Fitchburg Gas and
10 Electric Light Company (“FG&E”) and its New Hampshire utility affiliate Unitil
11 Energy Systems, Inc. My responsibilities are primarily in the areas of finance and
12 treasury services.

13

14 Q. Please briefly describe your business and educational experience.

15 A. I have worked in the utility industry for over 20 years, principally in the areas of
16 finance, strategy and regulation. From 1986 through 1999, I worked for Nevada
17 Power Company in Las Vegas, Nevada, in various Director- and Manager-level
18 positions relating to industry restructuring, finance, capital and operating
19 budgeting, investor relations and financial analysis. Prior to 1986, I worked for
20 Pacific Power & Light Company in Portland, Oregon as an analyst focusing on
21 utility revenue requirement analysis. I began working for Unitil in 2002 as a

1 regulatory consultant, and was hired as Director of Finance in January 2003. I
2 hold an MBA from the University of California at Los Angeles and a Bachelor of
3 Arts degree in Economics from Pacific Lutheran University in Tacoma,
4 Washington. See Appendix A to this testimony.

5
6 Q. Have you previously submitted testimony before the Department of
7 Telecommunications and Energy ("the Department") or other regulatory agencies?

8 A. Yes, I have submitted testimony before the Public Utilities Commission of
9 Nevada concerning financing issues and long-term financial forecasts related to
10 Nevada Power Company's resource plans. I have not, however, previously
11 submitted testimony before the Department.

12
13 **II. PURPOSE AND BACKGROUND**

14 Q. What is the purpose of your testimony in this proceeding?

15 A. I will present and explain FG&E's reconciliation model and supporting
16 calculations used to reconcile the costs and actual revenues for the Transition
17 Charge for 2003. I will also explain the model and supporting calculations used
18 to forecast the costs and revenues for the period October 1, 2003 through
19 December 31, 2004, and how this model complies with FG&E's Restructuring
20 Plan, the D.T.E. 01-103 Settlement and the previous reconciliation filing, D.T.E.
21 02-84.

1

2 Q. What Schedules do you present as part of your testimony?

3 A. I will present the following schedules:

4 Schedule RT-1 – Annual Transition Charge Model (Standard Format)

5 Schedule RT-2 – Calculation of Above Market Payments to Power Suppliers

6 Schedule RT-3 – Monthly Transition Cost Reconciliation

7

8 **III. COMPLIANCE WITH THE DEPARTMENT'S DIRECTIVES**

9 Q. Have you included all your workpapers in your Schedules?¹

10 A. Yes, my schedules constitute FG&E's workpapers. For instance, the Monthly
11 Transition Cost Reconciliation (Schedule RT-3), while a schedule of import, is
12 also considered one of FG&E's workpapers.

13

14 Q. Do these schedules match the schedules filed in D.T.E. 02-84, FG&E's December
15 20, 2002 Electric Reconciliation Mechanism and Inflation Adjustment Filing?

16 A. Yes, with the following changes and updates:

- 17 • Schedule RT-1 has been updated for actual information through
18 September 30, 2003. Page 1 of Schedule RT-1 has been corrected to show
19 the 2000 and 2001 kWh sales to reflect actual sales to all customers
20 subject to transition charges, and to update the kWh sales forecast for

¹ The Department requires that workpapers be filed as part of a company's annual reconciliation filing.

1 2003-2014 (col.1), the transition charge forecast (col.2), and changes to
2 the forecast of the Variable Component of the Transition Charge
3 summarized on RT-1, page 3, as discussed below. Finally, Schedule RT-
4 1, page 1, updates the resulting projections of future deferrals, interest and
5 recoveries. There is no change in the Transition Charge Fixed Component
6 calculation, i.e. Schedule RT-2, page 2, including the Residual Value
7 Credit, from that stipulated to by the parties in the D.T.E. 01-103
8 Settlement as approved by the Department.

- 9
- 10 • Schedule RT-1, page 3, summarizes the Variable Component forecast and
11 includes the changes shown on Schedule RT-1, pages 4, 15 and 17, all of
12 which have been updated for actual information through September 30,
13 2003 and other changes as described below.

- 14
- 15 • Schedule RT-1, page 4, was updated for a more up-to-date forecast of the
16 PTF Credit and to include additional 2003 costs of \$2,589 associated with
17 the Wyman IV Settlement.

- 18
- 19 • Schedule RT-1, page 15, was updated for the above market payments
20 forecast related to the Hydro Quebec and Linweave contracts based on the
21 most currently available information. In particular, FG&E had the

1 opportunity to mitigate expenses by selling capacity associated with its
2 firm transmission rights on the Hydro Quebec tie lines. FG&E estimates
3 that \$31,529 and \$37,606 will flow to ratepayers in 2003 and 2004,
4 respectively, from the revenues received against this commitment,
5 mitigating a cost otherwise borne as part of Transition Costs.

- 6
- 7 • Schedule RT-1, page 17, was updated to include charges for jointly-owned
8 transmission in support of generation. These stranded costs associated
9 with generation were initially, and incorrectly, billed to Select Energy.
10 However, the Select contract does not permit these costs to be included in
11 the billing. These costs are appropriate for recovery through the Transition
12 Charge. The charges amount to \$2,244 annually.
- 13

14 Q. Do these schedules comply with all other aspects of the Department's Orders
15 issued in FG&E's previous reconciliation filings?

16 A. Yes, Schedules RT-1 through RT-3 comply with previous Department directives
17 from D.T.E. 01-103 and D.T.E. 99-110 pertaining to the calculation and
18 reconciliation of FG&E's Transition Charge. In D.T.E. 01-103, FG&E settled
19 with the Attorney General all outstanding issues related to, among other things,
20 the calculation and reconciliation of the Transition Charge for the period March
21 1998 through September 2001. As of November 26, 2003, FG&E had not

1 received a final order from the Department in D.T.E. 02-84. A limited number of
2 issues were raised by the parties during this investigation, none of which would
3 impact the costs included in the Transition Charge as proposed in this filing.
4

5 **IV. TRANSITION CHARGE**

6 Q. Please explain what the Transition Charge is and how it is calculated.

7 A. FG&E's Transition Charge calculates FG&E's stranded costs and provides a
8 mechanism for recovery of these costs from customers. FG&E's approved
9 Restructuring Plan provides a detailed narrative description of the calculation of
10 transition costs, appropriate adjustments to these costs and supporting schedules
11 that compute the projected recovery of the costs. See Appendix B.²
12

13 Q. What are the components of FG&E's Transition Charge?

14 A. According to the methodology approved by the Department for FG&E, which is
15 similar -- and in many respects identical -- to the methodology used by the
16 majority of electric distribution companies across the state, the Transition Charge
17 is comprised of a Fixed Component and a Variable Component.
18

19 Q. Do FG&E's Transition Charge reconciliation models follow the required
20 standardized format?

² FG&E's Restructuring Plan was subsequently modified by the Department's Order in D.T.E. 97-115/98-120 approving the Restructuring Plan, and more recently in D.T.E. 99-110 and D.T.E. 01-103, but the basic underpinnings of the calculation of the Transition Charge remain unchanged

1 A. Yes. FG&E is required by D.T.E. 99-110 to provide the standard format
2 schedules found in Schedule RT-1. Schedule RT-1 reflects the annual
3 reconciliation of FG&E's Transition Charge using the costs and revenues for the
4 period through September 30, 2003, and a forecast of costs and revenues
5 thereafter, including the year 2003, as required by D.T.E. 99-110 and in
6 accordance with the methodology and calculations agreed to in the D.T.E. 01-103
7 Settlement.

8
9 Q. Please match the costs that have been included in the Transition Charge
10 mechanism with the associated sections of FG&E's approved Restructuring Plan
11 and the Department's orders concerning this Plan, including the Order in D.T.E.
12 99-110 and the Order approving the Settlement Agreement in D.T.E. 01-103, and
13 provide a reference to its location in your schedules.

14 A. This information is provided in Table RT-1 below:

1

TABLE RT-1		
Line #	Costs from November 26, 2003 Reconciliation Filing (SCHEDULE RT-1 AND SCHEDULE RT-3)	Correlation to Restructuring Plan or subsequent filings or orders
TRANSITION CHARGE FIXED COMPONENT		
1.	Amortization of Fixed Costs	<ul style="list-style-type: none"> ❖ See FG&E's approved Restructuring Plan, Appendix B, Tab E, Exhibit 1, Page 1, 1.1.1 for a description of the components of the amortization. ❖ Modifications pursuant to Order D.T.E. 99-110 and Settlement in D.T.E 01-103 ❖ See SCHEDULE RT-1, page 5 and 6.
2	Carrying Charges on Fixed Costs	<ul style="list-style-type: none"> ❖ See FG&E's approved Restructuring Plan, Tab E, Exhibit 1, Page 2, 1.1.2. for a description of the components of the carrying charges. ❖ Modifications pursuant to Order D.T.E. 99-110 and Settlement in D.T.E 01-103. ❖ See SCHEDULE RT-1, pages 5 and 6.
4.	Residual Value Credit	<ul style="list-style-type: none"> ❖ See FG&E's approved Restructuring Plan, Appendix A, Tab E, Exhibit 1, Page 3, 1.1.3 (b). ❖ Modifications pursuant to Order D.T.E. 99-110 and Settlement in D.T.E 01-103. ❖ Includes "second" RVC for Sale of Millstone 3 Ownership Interest, D.T.E. 00-68 (2001). ❖ See SCHEDULE RT-1, page 7 through 10.
TRANSITION CHARGE VARIABLE COMPONENT		
8.	Above Market Payments to Power Suppliers	<ul style="list-style-type: none"> ❖ See FG&E's approved Restructuring Plan, Appendix B, Tab E, Exhibit 1, Page 6, item (b) which provides for recovery of Above Market Payments to Power Suppliers, including payments by FG&E under Long-Term Power Supply Contracts, less the market value, in FG&E's variable costs. ❖ Modifications pursuant to Order D.T.E. 99-110 ❖ See SCHEDULE RT-1, page 3 , and supporting workpaper SCHEDULE RT-2.

9. 10. 11.	NHH HI- and LO-VOLT (NEPOOL) WYMAN 4 HI- and LO-VOLT (CMP) MILL 3 HI- AND LO-VOLT (NEPOOL) (Transmission Wheeling Support Payments)	❖ See FG&E's approved Restructuring Plan, Appendix B, Tab E, Exhibit 1, Page 7, item (g) which provides for recovery of transmission wheeling support costs in Variable Component of Transition Charge. ❖ See SCHEDULE RT-1, page 17.
12.	NEP PTF Credit	❖ In FG&E's approved Restructuring Plan, FG&E moved the PTF Credit to the Transition Charge in compliance with Department Order D.T.E./D.P.U. 97-115/98-120 at p. 48 (Jan. 15, 1999). ❖ See SCHEDULE RT-1, page 4.
13.	Post-shutdown Nuclear Decommissioning	❖ See FG&E's approved Restructuring Plan, Appendix B, Tab E, Exhibit 1, Page 5, 1.2.3 (a) that provides for recovery of these costs in FG&E's variable cost recovery component. ❖ See SCHEDULE RT-1, page 14.
14.	Power Contract Buyouts – Select Retained Entitlement Obligation	❖ See FG&E's approved Restructuring Plan, Appendix B, Tab E, Exhibit 1, Page 6, item (c) that provides for recovery of these costs as part of the variable cost component. ❖ See SCHEDULE RT-1, page 11.
15.	Employee severance and retraining	❖ See FG&E's approved Restructuring Plan, Appendix B, Tab E, Exhibit 1, Page 6, item (e) which provides for recovery of these costs as a part of the variable cost component. ❖ No cost recovery requested
16.	Claims by or against third parties	❖ See FG&E's approved Restructuring Plan, Appendix B, Tab E, Exhibit 1, Page 7, item (f) Provides for recovery of these costs as part of the variable cost component. ❖ No cost recovery requested
17.	Other Adjustments	❖ See RT-1, page 4.

1

2

3 Q. What is the proposed Transition Charge for 2004?

4 A. FG&E proposes to set the Uniform Transition Charge at \$0.00982 per kWh. The
5 calculation of this charge is fully explained in the Testimony of Douglas J. Debski
6 (Exh. FGE –DJD-1).

7

1 A. Obligation To Mitigate Stranded Cost

2 Q. Has FG&E taken every reasonable step to mitigate its Transition Charge as it
3 relates to purchase power expenses and to owned generation?

4 A. Yes it has.

5

6 Q. Has FG&E divested its generation?

7 A. Yes. FG&E divested of its long-term purchase power entitlements and its
8 economic interest in the Wyman 4 fossil fuel generating station through the sale of
9 these entitlements to Select Energy. See D.T.E 99-58 (2000). FG&E sold its
10 entire ownership interest in New Haven Harbor fossil fuel electric generating
11 station. See D.T.E. 98-121 (1999). FG&E also sold its ownership interest in the
12 Millstone 3 Nuclear generating station. See D.T.E. 00-68 (2001).

13

14 Q. Did the sale of FG&E's ownership interest in Millstone 3 confer additional
15 benefits upon FG&E's customers aside from a reduction to the Transition Charge?

16 A. Yes, it did. FG&E's customers are no longer obligated to make decommissioning
17 payments and have been released from all contingent liabilities and obligations as
18 a result of this sale.

19

20 Q. Have the divestiture activities undertaken by FG&E been consolidated into a
21 single publicly available reference?

1 A. Yes. A summary of FG&E's mitigation activities, along with copies of each
2 relevant Department order, is contained in Report on the Activities of Fitchburg
3 Gas and Electric Light Company to Mitigate Transition Costs, filed with the
4 Department as part of D.T.E. 00-66 (Jan. 19, 2001).

5
6 B. The Transition Charge Fixed Component

7 Q. What is the Transition Charge Fixed Component and what is it intended to
8 recover?

9 A. The Transition Charge Fixed Component is the portion of Transition Cost
10 recovery assigned to stranded costs associated with generation assets and
11 generation-related regulatory assets. Therefore, this component recovers the
12 remaining net book value of generation plant balances and generation-related
13 regulatory assets that were unrecovered or "stranded" as a result of restructuring.

14
15 Q. What period are the fixed costs recovered over?

16 A. These costs are amortized over a 12-year period commencing on March 1, 1998,
17 and continuing through December 31, 2009, with carrying charges adjusted for
18 taxes.

19
20 Q. Have you calculated the Transition Charge Fixed Component?

1 A. Yes. A summary of the calculation is provided Schedule RT-1, page 2. The
2 actual calculation of the Transition Charge Fixed Component of FG&E's
3 Transition Charge is performed in Schedule RT-1, pages 5 and 6, for Owned
4 Generation and Generation-Related Regulatory Assets, respectively. This
5 calculation is further supported by several of the standard format Annual
6 Transition Charge schedules provided in Schedule RT-1, as shown on pages 12,
7 13, 18 and 19.

8

9 Q. Is the calculation of the Transition Charge Fixed Component in accord with the
10 D.T.E. 01-103 Settlement?

11 A. Yes. All agreed-upon changes resulting from the Settlement are reflected in this
12 filing and are incorporated in the Annual Transition Charge calculation (Schedule
13 RT-1) and the Monthly Transition Cost Reconciliation (Schedule
14 RT-3). That is, there is no change in the Transition Charge Fixed Component
15 calculation from that stipulated to by the parties in the D.T.E. 01-103 Settlement
16 as approved by the Department. See Schedule RT-1, page 8, line 31 and page 10,
17 line 31.

18

19 C. The Transition Charge Variable Component

20 Q. The Variable Component of the Transition Charge recovers what part of FG&E's
21 transition cost?

1 A. The Variable Component of FG&E's Transition Charge includes the above-market
2 cost of long term purchase power, economic buyout payments, nuclear entitlement
3 and decommissioning-related costs, and certain transmission wheeling and
4 support charges associated with FG&E's entitlements in generation assets, as well
5 as other generation-related costs and expenses. The calculation of the Transition
6 Charge Variable Component is presented in summary fashion in Schedule RT-1,
7 page 3. This calculation is further supported by several of the underlying standard
8 format Transition Charge schedules provided in Schedule RT-1, as well as by the
9 Above Market Payments to Power Suppliers calculation shown in Schedule RT-2
10 and the Monthly Transition Cost Reconciliation detail shown in Schedule RT-3.

11

12 Q. What is the primary stranded cost that comprises the Transition Charge Variable
13 Component?

14 A. The above-market cost associated with FG&E's long-term power purchase
15 agreements constitutes the largest cost in proportion to the total Variable Cost in
16 the Transition Charge for the period prior to the divestiture of FG&E's power
17 supply portfolio to Select Energy (March 1, 1998 – February 1, 2000). See
18 Schedule RT-1, page 15. Following the divestiture to Select Energy in
19 February 1, 2000, the greatest cost items that remain in FG&E's Transition Charge
20 Variable Component are the economic buyout payments ("retained entitlement
21 obligation") FG&E pays to Select Energy under the terms of the buyout

1 agreement. These costs are shown on Schedule RT-1, page 11 (col. 6) and
2 detailed on Schedule RT-2.

3
4 Q. Are there changes to the calculation of the Variable Component of FG&E's
5 Transition Charge as a result of D.T.E. 99-110 and the Settlement in
6 D.T.E. 01-103?

7 A. Yes, there are, and each is reflected in the standard format Annual Transition Cost
8 model (Schedule RT-1) and the Monthly Transition Cost Reconciliation
9 (Schedule RT-3). See the summary discussion of these changes beginning at
10 page 4, line 4, through page 5, line 13, above. The method of calculating the
11 Variable Component of the Transition Charge was conclusively determined as
12 part of the Settlement approved in D.T.E. 01-103.

13

14 D. Residual Value Credit

15 Q. Please explain the calculation of the Residual Value Credit in the Transition
16 Charge.

17 A. FG&E's Restructuring Plan provides for a Residual Value Credit ("RVC") to
18 account for the sale proceeds for the divestiture of its generating units as an offset
19 to the Transition Charge Fixed Component.

20

1 Q. Does FG&E's filing present the Transition Charge RVC as it has the other
2 components of the Transition Charge to accord with the Department's directives?

3 A. Yes. The calculation of the Transition Charge RVC is performed at Schedule
4 RT-1, pages 7 and 8. The method of calculation and the level of the RVC were
5 conclusively determined as part of the Settlement approved in D.T.E. 01-103.

6

7 **V. CONCLUSION**

8 Q. Does this conclude your testimony?

9 A. Yes.

RESUME OF ROBYN A. TAFOYA

HIGHLIGHTS

- ◆ Professional achievements in finance include developing strategic plans, evaluating business plans, creating an investor relations department, and coordinating the development of corporate capital and operating budgets.
 - ◆ MBA from the Anderson School at UCLA, Executive MBA Program 1999 – 2001.
-

PROFESSIONAL EXPERIENCE

BUSINESS CONSULTANT: 5/02 – 11/02

Provided regulatory consulting services through Robert Half Management Resources to Unitil Corporation, a \$188 million (revenues) electric and natural gas utility company serving communities in New Hampshire and Massachusetts, which allowed Unitil to successfully complete simultaneous general rate and restructuring cases in New Hampshire and Massachusetts for all utility divisions.

BUSINESS CONSULTANT: 8/00 – 8/01

Independent consultant providing business process reviews for the CEO of Cybereps, a \$15 million national online advertising sales and marketing organization. Opportunity allowed me to observe some of the operational, financial and strategic challenges faced by small firms (50 employees or less).

STRATEGY CONSULTANT: 8/99 – 1/01

Independent strategy consultant for Sierra Pacific Resources' electric utility industry restructuring group concerning deregulation and cost recovery for stranded investments including purchased power contracts and power plants.

DIRECTOR, BUSINESS PLANNING: 7/97 - 8/99

Key member of Nevada Power Company's (NPC) director-level team that formulated strategies, lobbied legislators and provided expert witness testimony to deregulate electricity markets in Nevada. Coordinated preparation of the rate case that introduced new customer pricing plans under deregulation. Conducted corporate valuation studies and performed industry research. Reported to the CEO and senior management.

DIRECTOR, FINANCIAL PLANNING AND BUDGETS: 4/95 - 7/97

Managed the development of a \$160 million corporate operating budget and \$200 million capital budget for NPC which required extensive knowledge of GAAP and regulatory accounting; presented budgets to the Board of Directors. Developed a company-specific budgeting system designed to meet the needs of the fastest growing utility company in the USA. Managed preparation of corporate financial analyses and provided expert witness testimony to state regulators concerning long-range financial forecasts. Selected, trained and evaluated a staff of 11 people. Reported to the CFO.

MANAGER, STRATEGIC & BUSINESS PLANNING: 1/94 - 4/95

Developed corporate strategic plans, corporate financial forecasts and analyses for NPC. At the request of the CEO and COO, I organized quarterly officers' workshops to discuss strategic developments incorporating input from the officers and various outside consultants, supervised preparation of supporting studies and presented information to officers. One such study analyzed the impact of changing dividend policy and utilizing alternative sources of capital funding. Selected, trained and evaluated a staff of 7 people. Reported to CFO.

MANAGER, INVESTOR RELATIONS: 4/90 - 1/94

Created the investor relations program for NPC. Managed all communications with securities analysts (debt and equity), rating agencies, brokerage firms, institutional and individual investors. Prepared presentations given by CEO, COO, CFO and officers to the Wall Street financial community, and an integral member of the team of people who wrote the quarterly and annual reports to shareholders. Supervised in-house shareholder services staff. Selected trained and evaluated staff of up to 6 people. Reported to CFO.

EDUCATION

MBA: The Anderson School at UCLA, Executive MBA Program – 1999-2001

Highlights included two weeks in Portugal investigating European industrial and manufacturing organizations, and five days in Singapore interviewing international researchers, manufacturers and consumers concerning the market potential for wireless internet products. Capstone projects in marketing were sponsored by Sun Microsystems and presented to Sun's senior management in the United States and Europe.

BA ECONOMICS: Pacific Lutheran University, Tacoma, WA

Note: Professional and educational references will be located under my maiden name, Robyn A. Warsinske.